

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED
SEP 15 12 49 PM '00
POSTAL RATE COMMISSION
OFFICE OF THE CLERK

POSTAL RATE AND FEE CHANGES

Docket No. R2000-1

**Major Mailers Association's Notice
Of Filing Corrections To Initial Brief (ERRATA)**

Major Mailers Association notifies the Commission and the parties that it is filing the attached corrected pages to its initial brief filed September 13, 2000. MMA has faxed copies of the affected pages to the Postal Service and is filing corrected briefs with the Commission.

Respectfully submitted,

Major Mailers Association

By: 

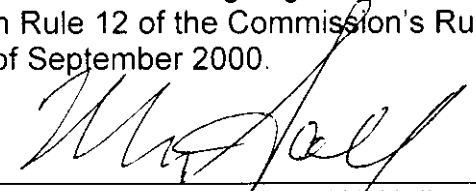
Michael W. Hall
34693 Bloomfield Road
Round Hill, Virginia 20141
540-554-8880
Counsel for
Major Mailers Association

Dated: Round Hill, VA
September 14, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties to this proceeding, in compliance with Rule 12 of the Commission's Rules of Practice.

Dated this 14th day of September 2000.



Michael W. Hall

TABLE OF CONTENTS

Statement Regarding MMA's Interest In This Proceeding	1
Overview Of The Postal Service's Proposals	2
Summary Of MMA's Proposals	3
Argument.....	4
I. First-Class Rates Are Too High And Need To Be Reduced	4
II. First-Class Workshare Discounts Should Be Increased, Not Effectively Reduced As The Postal Service Proposes	6
A. The Importance Of First-Class Workshare Mail	6
B. This Is Not The First Time The Postal Service Has Taken An Unhelpful Approach To Its Important Relationship With Workshare Mailers	9
C. The Postal Service's Measurement Of Workshare Cost Savings Is Flawed	11
1. Differences Due To The Service's Change In Basic Costing Methodology.....	12
2. Arbitrary Exclusion Of Relevant Costs From The Measurement Of Workshare Cost Savings.....	12
3. Use Of An Unrealistic, Inappropriate Benchmark For Measuring Savings 17	
4. Failure To Consider Other Cost Sparing Attributes Of Presort Letters	20
C. MMA's Proposal For Modest Increases In Presort Discounts Are Reasonable	20
1. Savings Achieved By Enclosed Prebarcoded Reply Envelopes	22
2. Savings From Compliance With Postal Service Move Update Requirements	22
3. Averted Window Service Costs	24
III. Issues Regarding The First Class Additional Ounce Rate	25
IV. USPS FY 1999 Updates In Response To Order 1294 Are Prejudicial To First Class.....	27
Conclusion.....	Error! Bookmark not defined.

LIST OF TABLES

Table 1 Comparison of USPS and MMA Proposed First Class Rates (Cents).....	3
Table 2 Comparison of Test Year Finances at USPS Proposed Rates	7
Table 3 Comparison of First-Class Presorted Cost Savings And Proposed Discounts (Cents)	11
Table 4 MMA Proposed First-Class Workshare Discounts (Cents).....	21
Table 5 Comparison of Current and MMA Proposed First-Class Rates (Cents)	21

Characterized by consistently strong volume growth, First-Class presort mail has demonstrated itself to be a workhorse for the postal system. The Postal Service has spent **billions** of dollars deploying automated barcoding and sorting equipment to accomplish what presort mailers do, day in and day out. Yet, according to USPS witness Kingsley, the Service's barcoding equipment is already operating at full capacity **even though the Service barcodes just 25.6% of all letters while presort mailers continue to prebarcode the lion's share -- 74.4%**. TR 5/1693; USPS-T-10 at 8. The 25% of the mail that the Postal Service's equipment does barcode is far less than the 40% the Postal Service originally anticipated (TR 26/12286; USPS-T-10 at 8, fn 5).

There is no likelihood that this situation will change in the foreseeable future. If anything, the 25% barcoding coverage factor is likely to be lower in the future. As Mr. Bentley explained, with stagnant First-Class single piece volumes and growing volumes within both First-Class and Standard Mail (A) automation categories, the percentage of letters to be barcoded by the Postal Service in the test year will tend to go down even more. TR 26/12286.

Based on the Postal Service's position that workshare discounts should be left at existing levels, one might assume that the Postal Service no longer needs to provide reasonable incentives to workshare mailers **and** stands ready to process all mail that reverts to single piece status. Such an assumption would be incorrect. As Postal Service witnesses concede, the Postal Service would experience *serious* operational problems if large portions of workshare mail reverted back to the Postal Service for barcoding and sorting. As Mr. Bentley explained in response to a question from Commissioner LeBlanc:

The Postal Service's long-range, so it seems, objective here has to shrink discounts rather than increase them, and that is part of the problem I see here. Of course, they are stuck. They can't really decrease [workshare discounts] very much because they would be in very big trouble now if some of this mail decided to revert back to single piece. I think there have been some rumblings to that effect because of the problems that some of the mailers, at least the members of MMA, are having with the Postal Service's non-uniform administration of the preparation requirements.

So down the road it appears to me that the Postal Service is going to have to remain competitive and if they want to keep the volume in there they

the costs to be unrelated to worksharing. Excluding these costs from consideration had the effect of reducing Basic Automation cost savings by .63 cents and reduced the savings from 3- and 5-Digit Automation letters by 30 percent. TR 26/12291.

There are several very obvious problems with Mr. Miller's narrow definition of cost savings. First there is the problem of possible sampling errors that result due to the loss of accuracy that accompanies the disaggregation of cost data to very low levels. TR 26/12291-92. Second, the cost pools that USPS witness Miller proposes to exclude do not affect single piece and workshare letters in the same manner. As Mr. Bentley observes, "in virtually every case, workshare letters cost less than single piece letters." *Id.* The fact that USPS witness Miller cannot explain the cost differences is a "fundamental flaw"¹² in the Postal Service's case. As Mr. Bentley elaborated:

If exogenous factors impact single piece letters and workshare letters differently, then Mr. Miller's CRA- and model-derived unit costs do not accurately reflect just workshare cost differences, his stated goal. In other words, eliminating the cost pools Mr. Miller removed essentially invalidates his derived workshare cost savings.

However, if the exogenous factors impact single piece and workshare letters similarly, which I contend, then the observed cost differences totaling over 1.3 cents in the cost pools that Mr. Miller removed from consideration are more than likely caused by worksharing attributes. Accordingly, they should be included in, not eliminated from, the workshare cost savings analysis.

In either situation, inclusion of these cost pools in the analysis will produce a more accurate estimate of workshare cost savings. If particular costs are unrelated to worksharing, as Mr. Miller claims, and the costs affect single piece and workshare letters alike, then including the cost pools in the analysis will have no impact on the derived cost differences.

TR 26/12293. See also TR 26/12362-64. Moreover, Mr. Miller's "judgments" on excluding these cost pools from consideration are at odds with the judgments made by Postal Service witness in other cases. USPS witness Hatfield, who testified in the R97-1 proceeding, chose to include such cost differences as part of the presort cost savings derivation. Therefore, the purely precatory statements Mr. Miller chose to rely upon are irrelevant, since witness Hatfield made no reduction in the measured cost savings. In

12 TR 26/12292.

– a First-Class mailing limited to one ounce per piece and a Standard (A) mailing weighing up to 3 ounces. Mr. Salls has presented, in Exhibit MMA-3A, an illustration of how mailers save money by breaking up their mailings in this fashion. TR 26/12266-67. Table 1 of that exhibit shows that breaking up a 10,000 piece 2-ounce mailing into two separate mailings can save a mailer approximately \$540, even though the Postal Service incurs significantly greater costs to handle and process twice the number of pieces. TR 26/12266. Table 2 (TR 26/12267) demonstrates how extending the heavy weight discount to pieces weighing between 1 and 2 ounces will help to eliminate the counterproductive incentives built into the current additional ounce rate structure and will persist under the Postal Service's First-Class rate proposals. TR 26/12264.

IV. USPS FY 1999 Updates In Response To Order 1294 Are Prejudicial To First Class

By Order No. 1294, issued May 26, 2000, the Commission directed the Postal Service to prepare and present a "basic update" of its request for rate and fee changes to incorporate actual data based upon the FY1999 audited Cost And Revenue Analysis ("CRA") Report.²² Order No. 1294 and POR 71 also allowed the Postal Service an opportunity to develop "additional improvements" (Order No. 1294) to its test year forecast, for example by revising cost change factors for 2000 and 2001, including such items as "more recent inflation forecasts or program estimates" (POR 71 at 1) and to propose different rates and different cost coverages. POR 71 at 2.

The resulting updates have caused great dislocation for parties like MMA who have struggled to review, digest, and react to what has been an unrelenting series of updated cost figures, errata, revisions, and clarifications. MMA witness Bentley filed two lengthy updates of his testimony, exhibits, and library references within 6 days of each other. The last update was completed literally within hours of taking the stand on August 29.

Noting the obvious -- that he had not had time to adequately review the Service's updated cost presentation -- he provided a laundry list of "possible anomalies" and

²² On that same date, the Presiding Officer issued Ruling R2000-1/71 ("POR 71"), which modified the procedural schedule to accommodate the changes in the Postal Service's presentation and possible adjustments to the presentations of other participants.

areas that, in his view, require additional explanation by the Postal Service. The items he identified included the following:

- The Postal Service applied what should have been “across-the-board” cost increases for wages, inflation factors and energy costs. Accordingly, the relative cost changes by subclass should be, but are not, reasonably close and in the same direction as one another.
- First-Class costs appear to have been increased by several hundred million dollars, and Commercial Standard Mail costs have been reduced by almost a similar amount. TR 44/19096-98.
- USPS witness Patelunas was unable to explain why the updated costs compared the way they do. He stated, “I have not made this comparison because I have not had time and it is not necessary for my testimony.” See TR 35/16626-29, 16685-90, and TR 46-D/21561.
- In its updated cost presentations, the Postal Service combined the separate impacts of updated FY 1999 billing determinants and updated cost change factors. See TR 35/16691-92, and TR 46-C/20688. In addition, the Postal Service was given an opportunity to develop additional adjustments that it felt was appropriate. It was not possible for Mr. Bentley to update his cost analysis simply to reflect the updated FY 1999 billing determinants without incorporating all of the other changes that were made.
- The Postal Service has changed its longstanding policy of limiting the wage rate change to one percent below the employment cost index (ECI minus 1). Mr. Patelunas was instructed by unnamed “management” officials, with no apparent explanation, to limit the wage rate increase to equal the ECI. See TR 35/16796-16800.
- The Postal Service’s revised updated costs were inspired by an apparent large increase in First-Class non-automation unit costs as reported by the In-Office Cost System. The unit costs for First-Class Carrier Route presorted letters has declined from 3.1 cents to 2.4 cents. ***There is no logical explanation for this 23% decrease.*** See Library References MMA-LR-1, 2 and 3, based on Library References USPS-I-147, 466 and 478.
- The unit costs for all First-Class presorted letters appear to decrease from 4.3 cents to 3.9 cents after the August 21 updated cost presentation. However, the unit cost for these pieces then increase to 4.5 cents as a result of the August 28 updated costs. ***There is no explanation as to why the unit costs for all presorted letters should increase by 13% when the Postal Service was allegedly correcting a cost shift between First-Class Nonautomation and Basic letters with no change in the total costs.*** See Library References MMA-LR-1, 2 and 3, based on Library References USPS-I-147, 466 and 478.

- First-Class automation letter "breakthrough productivity" cost reductions do not seem to be shared equally with their Standard Mail (A) automation counterparts, as discussed by ABA&NAPM witness Clifton. TR 45/20094-97.

The lack of any reasonable explanation for these matters left Mr. Bentley in a quandary.

As he testified:

Absent the opportunity to review and analyze the underlying data that derived MMA's workshare cost savings, I recommend that the Commission, after making its decision on the appropriate costing methodology, base year, and cost change inputs, simply substitute its final recommended cost pools into my cost model to derive the appropriate workshare cost savings. In the alternative, the Commission should use my original analysis of workshare cost savings provided in Library Reference MMA-LR-1.

TR 44/19081. Under these exigent circumstances, MMA reluctantly agrees with Mr. Bentley's "solution."

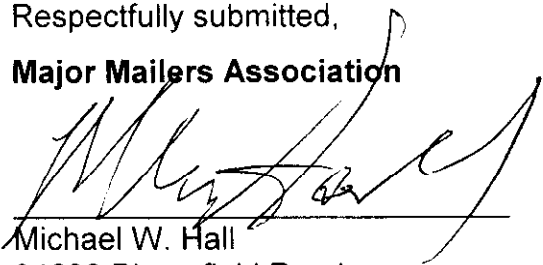
CONCLUSION

For the foregoing reasons, the Commission should adopt MMA's recommendations for reasonable increases in the discounts for presort mail and extension of the heavy weight discount to workshare letters weighing between 1 and 2 ounces.

Respectfully submitted,

Major Mailers Association

By:


Michael W. Hall
34693 Bloomfield Road
Round Hill, Virginia 20141
540-554-8880
Counsel for
Major Mailers Association

Dated: Round Hill, VA
September 13, 2000